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1. Executive Summary

The allocation for Fiji under the 9th EDF has been set at € 23.1 million, as indicated in the Country Strategy Paper and National Indicative Programme covering the period 2003 - 2007, signed by Commissioner Poul Nielson and Prime Minister Laisenia Qarase in Suva on 6 February 2004.

Out of the allocation, € 21 million are for the envelope A, to finance interventions in Education as focal sector, and € 2.1 million for the envelope B. Most important, the amount earmarked in the A envelope, is to be used to support the provision of, and equal access to, quality education by all ethnic groups in the rural and most deprived areas. This reference has been pointed out by the EU Council in the decision of 17 November 2003, resuming full cooperation with the Republic of Fiji Islands.

As the Country Strategy Paper has been based on a comprehensive analysis of Fiji's political, economic and social situation, and on the government's overall development objectives in the rural and most deprived areas, it maintains all its relevance to the current situation. Because of the urgent needs and importance for Fiji's development to reduce the gap in social services delivery in the rural and most deprived areas, for example regarding primary and vocational education facilities, rural education has been identified as focal sector of the 9th EDF strategy for Fiji. This takes into account government's funding in the sector and other donors' activities.

Moreover, the provision of and equal access to quality education by all the ethnic groups in the rural and most deprived areas of the country reflects the European Union's long term commitment to a sustainable national reconciliation in Fiji, for instance at grass root level, following the political events in May 2000.

The A allocation of € 21.0 million will be implemented in the focal sector under the leadership of the Ministry of Education and the Ministry of Youth and Employment with direct participation of Non State Actors. The B envelope of € 2.1 million has been earmarked to provide additional support, when this becomes necessary as a result of external factors.

Because of the political events in May 2000, a number of restrictions had been imposed on development aid to Fiji, including, following Article 96 consultations, the temporary freezing of the allocation from 9th EDF. On 17 November 2003, taking into account the efforts made by the Fijian government in promoting national reconciliation and ensuring a return to rule of law and constitutional conformity, the Council decided to resume the aid without restrictions. This decision allowed the signature of the CSP/NIP, as indicated above.

Taking into account the social sensitivity of Education in relation to the ongoing national reconciliation process, its influence on the stability of the country at the grass root level,

MTR 2004 agreed to have no change of strategy and confirmed the allocation of the full amount of the envelope A .

2. The policy agenda of the partner country

The Government's Medium Term Strategy for steering the country forward to its vision of a peaceful and prosperous Fiji is summarized as “Rebuilding Confidence for Stability and Growth”.

The strategy remained the same for 2002 and 2003 and it identifies the Strategic Priorities that were addressed in both years and in the medium term. They were selected after taking into consideration the updates in the political, social and economic situation of Fiji as outlined in Section 2 of this chapter.

The Strategic Priorities are divided into 2 groups, according to their various contributions to either Stability or Growth as follows:

<u>Rebuilding confidence for Stability</u>	<u>Rebuilding confidence for Growth</u>
<ul style="list-style-type: none">- Enhancing security and law and order- Promoting national reconciliation and unity- Alleviating Poverty- Strengthening good governance- Reviewing the Constitution- Resolving the ALTA issue- Implementing Affirmative Action	<ul style="list-style-type: none">- Maintaining macro-economic stability- Raising investment levels for jobs and growth- Reforming the public sector to reduce the cost of doing business- Rural and outer island development- Structural reforms to promote competition and efficiency.

As mentioned in the Joint Annual Report of 2002, the Government believes that the implementation of these Strategic Priorities will set the economy on course to achieve average growth of 5% per year. An annual growth of at least 5% is needed to provide sufficient jobs and income earning opportunities for the labour force, and to provide the necessary resources to address poverty reduction, affirmative action and other social programmes in the medium term. Government measures to help rebuild confidence will boost growth in the short term. In the medium term, sustained 5% growth per year can only be achieved by undertaking reforms to improve efficiency in both the private and public sectors.

The 2003 national budget was designed to provide resources to the Strategic Priorities. A 3 year rolling Public Sector Investment Programme (PSIP) was also prepared to ensure that a pipeline of sound government investment projects was programmed into the annual budget. These Strategic Priorities were built into the line ministries' corporate plans. Ministries prepared their corporate plans on an annual basis and these are used to ensure that budget resources are directed at priorities.

Alleviating poverty

A key Strategic Priority of this Plan is to stimulate opportunities for the poor and all communities to participate and equally benefit from economic growth and development. Government is committed to raising public investment to lift living standards, and improve infrastructure and basic human needs. Inter-sectoral development programming, coordination and investment in formal and informal education, health, agriculture and rural development are essential to alleviate poverty.

Government's approach to poverty alleviation is three-pronged: (1) provision of opportunities for income generation for the poor; (2) capacity building to enhance their participation in income-earning activities; and (3) the provision of a social safety net for those who are unable to support themselves. Government believes that this approach to poverty alleviation is consistent with the United Nations Millennium Development Goal number one: "Eradicate extreme poverty and hunger".

Private sector engagement

Government continued to be committed to a partnership with the private sector, and all stakeholders of Fiji, in monitoring various policies' implementation. The Strategic Development Plan (SDP) 2003-2005 was endorsed by Parliament in November 2002. To facilitate implementation, Cabinet endorsed a Monitoring Mechanism to monitor the implementation of the SDP.

The monitoring mechanism consists of Cabinet, the National Economic Development Council (NEDC), nine Summit Working Groups (SWG) and the National Planning Office as the Secretariat. The SWG and NEDC consist of members from the private sector, civil societies, non-government organizations and line Ministries/ Departments. There were four (4) meetings of the SWG in 2003 and discussions were based on the progress of implementing the key performance indicators of 2003. This monitoring mechanism ensured that both the private sector and the civil society were engaged in the joint development efforts.

3. Update on the political, economic and social situation

Political situation

During 2003 Fiji further progressed in re-establishing a climate of stability, which had been broken by the May 2000 coup. The government is aware that employment creation is crucial to address this problem and is striving to stimulate investment, preferably in new and diversified sectors, to achieve it.

The most overt and publicised divergences are between the leaders of the two largest parties: the Prime Minister Laisenia Qarase and Mr Mahendra Chaudhry, leader of the FLP and former Prime Minister deposed by the coup. During the year, however, they met for "Talanoa" sessions and progress has been reported in key areas, such as sugar and

land reform. “Talanoa” is a Fijian expression designating a discussion aiming at achieving consensus, with or without a fixed agenda.

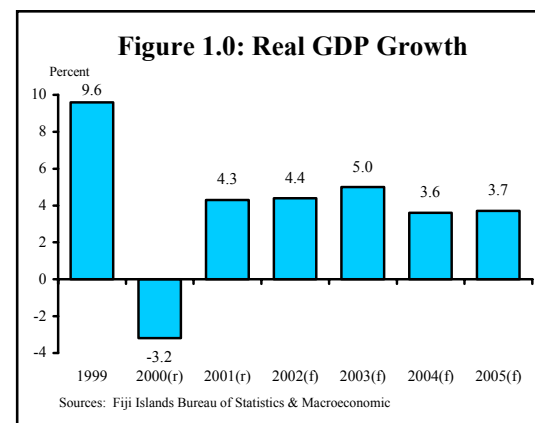
The need for an in depth reform of the sugar industry is widely acknowledged. The industry is reported to maintain, totally or partially, approximately 20% of the population and the government has openly recognised that in its present form the industry cannot subsist without the EU’s preferential prices.

On July 18th the Supreme Court confirmed FLP’s entitlement to be part of the government. The Prime Minister initiated discussions with the FLP leadership shortly after, but at the time of reporting divergences subsist between the two parties on the number of seats FLP is entitled to, the nature of the portfolios offered and the personalities invited. Both parties agreed to re-submit these to the courts. These advances were deemed positive by the European Union and allowed for a decision to resume all aid to Fiji.

Economic Situation

Real GDP growth was forecasted at 5 percent for 2003. With the exception of the sugar and cane sector, which is projected, to decline further due to persistent unresolved industry issues growth in 2003 is also expected to be broad based across all sectors of the economy.

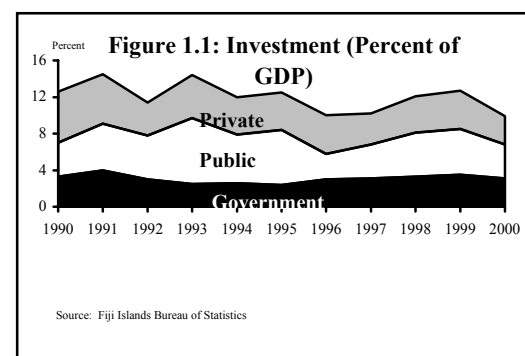
The 2003 growth forecast is driven mainly by the healthy performance of the tourism industry, which will be boosted by the South Pacific Games [SPG] in June, and its flow on effects. This is expected to result in 11.9 percent growth forecast in the wholesale & retail trade and restaurants & hotels sector. The higher tourism growth will also feed through into an expansion of 10 percent in the transport & storage sector.



Construction activity was projected to increase by 9.5 percent in light of ongoing construction of major projects such as the SPG facilities and increased government spending on infrastructure. Favorable growth is also forecast for communications (7.5%), electricity & water (5.4%), finance (2.2%) and the clothing & footwear (2%) sectors, reflecting the broad based recovery in the economy.

Investment

Investment levels in Fiji have been low, averaging around 12 percent over the last decade, compared with an average of almost 19 percent achieved in the 1981 to 1990 period. The downward trend in investment levels, particularly private investment, is a major concern as it is an essential ingredient towards achieving sustainable economic growth in the long-term.



The government adopted an expansionary fiscal stance in 2001 and 2002 to provide a more conducive environment for private sector investment, as well as to provide for a higher level of investment spending by Government. This is part of Government's commitment to raise the proportion of its capital spending relative to total expenditure. To ensure this commitment is fulfilled, Government has prepared a pipeline of well-designed programs and projects in the priority sectors of Government through a 3-year rolling Public Sector Investment Program.

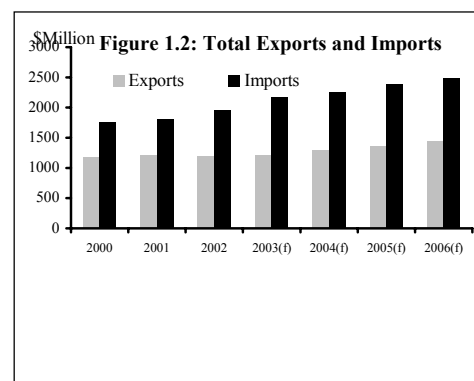
Nevertheless, the level of private sector investment must also increase in order to provide the much needed impetus to growth. The Fiji Investment Corporation (FIC) was established in 2002 with funding of \$10 million to be used to enter into joint venture arrangements with the private sector. Government allocated an additional allocation of \$1.0 million in 2003 for the FIC.

Trade

Exports & Imports

Exports decreased by 2.2 percent in 2002 and this was mainly due to lower receipts from garments, fish and gold, which offset higher receipts from sugar, mineral water and fruits & vegetables.

Consistent with the moderate pickup in global growth, exports were forecasted to increase by 1.9 percent in 2003, led by garments, mineral water and gold. Garments exports were forecasted to record positive growth, a turnaround from the declines recorded in the past two years, boosted by higher production. Mineral water exports were also forecasted to continue their good performance with an increase in the earnings from gold, underpinned by higher international gold prices, as well as better production in the year. Receipts from sugar, fish and timber are forecasted to decline. The numerous problems plaguing the sugar industry continued to impact export receipts. The expected decline in fish exports is largely due to a decline in export prices, while the fall in timber exports is mainly attributed to the decline in production of indigenous log, as well as major companies operating below capacity.



Balance of Payments

Fiji's overall balance of payments position deteriorated further in 2003, to a deficit of \$120.8 million, from a deficit of \$88.5 million in 2002.

The current account deficit was expected to widen significantly to \$521.8 million in 2003, followed by a deficit of \$145.6 million in 2002, and this was largely due to a massive expected deterioration in the trade deficit (from \$593.2m to \$882.9m), reflecting the

faster pace of import growth compared to exports. The following contributed to the expected widening of the current account deficit:

- i. Higher anticipated services outflows – mainly reflecting higher payments on freight, which is in line with expectations of robust import growth; and
- ii. An expected increase in investment income outflows – particularly direct investment income payments abroad.

The capital account surplus for 2003 was \$72.1 million and this was largely a result of higher foreign direct investment, particularly the leasing of two aircrafts (\$202.4m).

The overall balance of payments situation is anticipated to improve in the next two years, before declining in 2006. The current account deficit is likely to narrow in 2004, largely underpinned by an expected improvement in the trade deficit, as well as higher forecast inflows from other transportation services. On the other hand, the capital account surplus is expected to narrow markedly, reflecting the reduction in leased aircraft. In 2005, the current account deficit is expected to deteriorate, attributed to a widening of the trade deficit, while the capital account surplus is forecast to widen, underpinned by higher statutory loan drawdown.

Fiscal Policy and Debt Policy

Briefly, fiscal policy covers Government's revenue and expenditure policies, and the net deficit level. Government's fiscal strategy is to broaden its revenue base, reduce operating expenditures and continue to channel a steady stream of investments in key growth sectors of the economy.

Table 4 below shows Government's fiscal targets in the medium term, which are consistent with broad macroeconomic goals.

Table 4: Government's Fiscal Targets				
	2003	2004	2005	2006
	(A)	(B)	(F)	(F)
Govt. Savings as % of GDP	-0.2	0.8	1.7	2.4
Net (Deficit)/Surplus as % of GDP	(6.1)	(3.5)	(3.0)	(2.5)
Debt as % of GDP	46.1	48.0	40.0	40.0
Real GDP Growth	5.2	4.1	3.5	3.8

Sources: Economic Policy Analysis Section, Ministry of Finance

Key: A = Actual, B = Budget, F = Forecast

The deficit level for 2003, which is above the budgeted level of 4 percent, is attributed to the additional appropriation of \$30.2 million earlier in the year to fund the Cyclone Ami Relief and Rehabilitation efforts and the need to bring forward the upgrade of the Suva-Nausori Water Supply. In addition, asset sales did not proceed as planned in 2003.

Government will also strengthen its debt management capability through capacity building and the development of clear debt and risk management policies and strategies. Improving debt issuance in the domestic market will also be encouraged to lower Government's debt servicing costs.

To promote prudent financial management, Government will, amongst other initiatives, continue to enforce spending within budget allocations, and discourage the diversion of budgeted provisions since it distorts the budget capital-operating mix.

Government will fast-track its Financial Management Reform (FMR) program in 2004 through the strategic review of its components. This review will entail improving Government's Financial Management Information System (FMIS), enacting a revised Public Financial Management Act and also upgrading the relevant management, accounting and technological skills. This will include the review of the relevant FMIS programme that takes into account payroll and human resources issues.

The use of Annual Corporate Plans (ACP) for each Ministry and Department will continue in 2004. The ACPs are the first step in the shift towards a more accountable and transparent system of budgeting.

Revenue Policy

Government's revenue policy for 2003 was aimed at optimizing revenue collections, stimulating investment, and broadening the tax base through the following measures:

- a) Continuing with the implementation of the investment package (except for the reduction in corporate and personal income taxes to 30 percent in 2003);
- b) Maintaining the integrity of the VAT system;
- c) Protecting key domestic industries;
- d) Tightening compliance with the tax system;
- e) Improving collection of tax arrears;
- f) Ensuring that Government fees, fines and charges reflect the current cost of producing these goods and services by indexing the rates to inflation; and
- g) Consolidating and retaining the tariff structure under the 4 main bands.

Expenditure Policy

The dual objective of government's expenditure policy are the re-distribution of wealth and the building of productive capacity in the economy. Therefore, Government's expenditure is directed at providing goods and services to the public, especially to assist the poor and the disadvantaged. In building the economy's productive capacity Government will continue to channel a steady stream of investment in strategic areas in

order to enhance economic growth; while at the same time, ensure that there are adequate funds to support its day-to-day operations.

Accordingly, Government will continue to shift resources from operating to capital expenditure. At the same time, it will ensure adequate resources are devoted for basic social services and for the running of Government's day-to-day operations. The 2003 Budget targeted an operating/capital composition of 80/20. Including Aid-In-Kind, an operating capital mix of 77 percent to 23 percent is targeted for 2003.

To ensure this commitment is fulfilled, Government finalized a pipeline of well-designed programmes and projects in the priority sectors of Government through a 3-year rolling Public Sector Investment Programme (PSIP) for consideration in the annual budgets.

Another key objective of expenditure policy is to improve the effectiveness of Government spending. Reforms to public financial management will assist in improving accountability. As a stepping stone, accountability mechanisms such as the corporate planning process and the clarification of core outputs will be strengthened in order to better link resource allocation to policy intentions.

Foreign Reserves

Foreign reserves have fallen for the most part of 2003 and reflect buoyant domestic demand conditions. At the end of 2003, foreign reserves were estimated to be around \$727 million, sufficient to cover 3 months of import payments of goods and non-factor services or 3 months of imports of goods only.

Labour Market

Although there were substantial redundancies, reduced incomes and shorter working hours in 2000 and the first half of 2001, improvements in working conditions were noted in the last quarter of 2001 and in early 2002.

Although some garment factories reduced operations or completely closed down in 2000 and 2001, new factories commenced operations and others were taken over by larger companies. Employment situation in other industries have basically improved.

Up to August 2002, the number of newly registered taxpayers increased notably, indicating positive employment growth.¹ With the new foreign projects implemented during the first half of 2002, it is expected that more jobs (approximately 131) would be generated.

Providing decent jobs for the 17,000 job seekers (mainly school leavers) each year is a major challenge for Government. The Integrated Human Resource Development Programme for Employment Promotion (IHRDPEP) has been extended to 2004 to complete piloting of the initiatives. Its planned replication throughout the 14 provinces

will facilitate the promotion of sustainable formal and informal jobs in the rural as well as urban areas. With targeted growth of 4.4 percent in 2002 and 5.7 percent in 2003, there was a positive outlook that more jobs will be created.

Social Situation

The United Nations Millennium Development Goals (MDG)

Fiji has already achieved, or almost achieved many of the MDG targets. The latest report on poverty incidence is the 1997 Fiji Poverty Report. However, the Government in conjunction with ADB has prepared a National Poverty Assessment Report, and would be finalized when the full results of the Household, Income, Expenditure Survey (urban and rural sector coverage) are available.

Fiji has very high literacy rates and has achieved universal primary education for boys and girls. Gender equality has almost been attained in secondary education. However, the quality of education and retention rates remain a problem, particularly in the outer islands.

Child mortality rates have declined over the last decade. Fiji's Infant Mortality Rate is 16.18 for every 1000 live births (LB) and the Child Mortality Rate is 1.18/1000.

Available data suggests that only half the population has access to an improved water source. Access to sanitation is reported at 75% in urban areas and only 12% in rural areas.

Social Development

Education and health remain a focus of Fiji governmental policy, recognizing that a healthy and well-educated population is an essential ingredient for positive economic growth. Social Justice and Affirmative Action programs are being implemented to assist disadvantaged sections of our community under the provisions of the Social Justice Act 2001. The advancement of indigenous Fijians and Rotumans remains a key development issue, and so do the alleviation of poverty and job security for the 15,000 school leavers every year. There is also more emphasis on an integrated approach to rural development, where communities participate in the regional planning decision-making process. The mainstreaming of women's, children's and youth participation in the development process is also now reflected in government policies.

Law and Order

Reported crimes have gradually declined within the last decade. However, drugs, money laundering and prostitution, as well as sexual offences against women and children appear to have increased. Increasing number of pending cases (by 27 percent from 1993 to 61,847 in 1998) has delayed justice for many. Government has put in place various mechanisms to ensure the effective and efficient maintenance of law and order in Fiji. Since the May 2000 political crisis, law and order in Fiji has returned to normal, with the primary responsibility for the

maintenance of law and order resting with the Fiji Police Force. A major challenge for Government is to find the right prescriptions to address the causes of crime, which include unemployment, poverty, rural-urban drift, broken homes, substance abuse, violent movies and videos and illegal immigrants. In addition, Government needs to strengthen relevant institutions through development of human resource skills to enable them to detect crimes effectively and efficiently.

Poverty levels According to the 1997 Fiji Poverty Report, 25.5% of the households lived under the poverty line, equivalent to an income of \$5,500 per annum for a family of five consisting of two adults and three children (Table 1).

Table 1 Poverty Statistics 1997

	Basic Needs Each Week (minimum gross weekly income)	Number of households under poverty line	Percent of households under Poverty Line
Fijian	92.63	17,760	27.7
Indo-Fijian	97.34	22,150	31.0
Others	92.63	1,370	27.6
National	83.00	34,600	25.5

Indications are that poverty has increased significantly over the last five years, particularly since May 2000. As a result of increasing poverty, the number of Family Assistance Allowance recipients has increased significantly (Table 2). Assistance offered by NGOs has also increased significantly over the last few years. Other visible signs of rising poverty include increased numbers of street people such as beggars, street kids, wheel barrow boys and prostitutes, and squatters squatting in urban and peri-urban areas.

Table 2 Family Assistance Allowance Recipients and Expenditure

	1995	1996	1997	1998	1999	2000
No. Of recipients	9245	10070	10785	11680	11813	13443
F\$ million distributed	3.5	3.5	5.0	5.1	6.0	6.03
Av. allowance per year (\$)	377.28	347.57	463.61	436.64	507.92	449.0
Av allowance per week (\$)	7.25	6.68	8.92	8.40	9.77	8.63

The major categories of the poor include the working poor, single parent headed households, the unemployed and the disabled. Approximately 83 percent of heads of poor households work. They are poor because the type of work they do pay such low wages, and

that the whole household is dependent on them. One in seven of the poor households are headed by single parents.

Health situation Survival indicators such as infant, child and maternal mortality rates and life expectancy rates have shown some improvement in the period 1985 to 1999. Child mortality rates have declined over the last decade. Fiji's Infant Mortality Rate is 16.18 for every 1000 live births (LB) and the Child Mortality Rate is 1.18/1000. Other statistics include Early Neonatal Mortality: 6.91/1000 LB; Neonatal Mortality: 8.29/1000 LB; Late Neonatal Mortality: 7.89/1000 LB; Immunization Coverage: 90% First Year of Life; 98% of all deliveries in Fiji are done in health facilities or by health professionals; Hospital Admission for Morbidity vs. Mortality data 1998-2000 for children less than 5 years:

- i. Acute Respiratory Infections: 40% vs. 30% [GOPD: 40%];
- ii. Communicable Diarrhoeal Diseases: 25% vs. 10% [GOPD: 5%];
- iii. Malnutrition: 4% vs. 6%;
- iv. Meningitis 4% vs. 4;
- v. Asthma: 25% vs. 4% [GOPD: 5%];
- vi. Rheum. Heart Disease: 2% vs. 8% [GOPD: 10%]; and 25% of children have malnutrition

[Note: GOPD – General Out Patients Department]

Changing lifestyles have also led to increased incidences of heart and respiratory diseases, diabetes, high blood pressure and cancer. Life Expectancy at Birth for Fiji increased by 2 years from 67 years in 1986 to 69 years in 1999. Leading global health crises and challenges have not excluded Fiji. Recent statistics have confirmed that there are 129 cases of HIV/AIDS in Fiji, with a significant increase in the last three years. There are number of initiatives that are currently being undertaken by the ministry and these include awareness programmes, training, printing and distribution of information and dissemination of information.

Access to health services and resources in Fiji has deteriorated. Fiji's doctor-patient and nurse-patient ratios which were 3234 and 625 respectively in 1990 have worsened to 4029 and 692 respectively in 1999. These ratios are expected to have worsened after the May 2000 political crisis, with continuing emigration of health professionals from 130 in 2000, to a total of 270 up to March 2002. Health service delivery has been adversely affected, contributed to increased rural/urban drift.

A five-year Health Management Reform Project (1999-2003) is being implemented. This is aimed at decentralizing service administration to give more autonomy and responsibility to divisional and sub-divisional hospitals. In the medium term, the undertaking for Government would be increased commitment and dedicated funding for health promotion and disease prevention and ensuring basic health services are accessible and affordable to all.

Education

In addressing the MDG *Universal Primary Education* (UPE), the Ministry of Education is targeting it through its Education For All (EFA) Action Plan. UPE in Fiji is almost achieved with a net enrolment ratio in primary education of about 99%. Efforts are continuing through the introduction of compulsory education in primary in 1997 and continuing to secondary in 2001. The target of compulsory education is to have every child in Fiji to complete 10 years of basic education.

The Ministry is currently undertaking a Fiji Education Sector Review with AusAID on how to strengthen the Ministry's various sections and functions in order to improve the efficiency of the Ministry in carrying out its functions. Rural education is also enhanced through the assistance of the European Union. Regional co-operation efforts are being coordinated with organizations such as UNESCO on implementing some programmes such as 'Education of All' and other Regional initiatives. Curriculum development is also an area where sustainable development is being addressed in terms of teaching the children in schools on issues pertinent to sustainable development programmes. Manpower development is a key function of the Ministry of Education and the development of the full potential of all children in Fiji is a prime focus of their programmes.

*Rural incomes and
Living standards*

Urban drift continues to increase with about 54% of Fiji's population still residing in rural areas. Continuous neglect and lack of development focus on rural and outer islands have contributed to the overall increase in urban migration from these areas. In addressing the problem and raising the standard of living in rural areas, government intends to intensify in its rural infrastructure. This would narrow the opportunity and accessibility gaps between rural and urban population and government. Forms of Government assistance to the rural sectors include sugar development, land drainage and flood protection, upgrading and maintenance of roads, construction of health centers as well as the provision of services such as water supply, telecommunication, postal and electricity.

*Persistence of Skill
Shortages and
Constraints to Job
Growth*

A major factor hindering economic growth and development is the persistent shortage of skilled workers and middle and high level managers. The vast majority of these highly skilled persons were Indo-Fijians and they represent a loss of over a quarter of the stock of professional and technical workers in the country as of 1996. Within the formal sector, it is the Public Service, where two thirds of middle and high level workers with the requisite tertiary level education and training are employed, that suffers the most from manpower shortages. Some 10% of all established posts in the public service are vacant due to inability to recruit and particularly to retain professional and technical personnel required, such as medical doctors, nurses, engineers and scientists. Table 3 clearly explains the percentage of Fiji citizens that emigrated ie. with respect to the various occupational groups.

Table 3: Fiji Citizen Emigration for Selected Occupational Group- January – September 2003

	Total	Fijian	Indian	Others
Architects, Engineers and Related Technicians	101	6	90	5
Accountants	120	5	107	8
Teachers	225	14	209	2
Medical, Dental, Veterinary & Related Workers	75	20	51	4

4. Overview of past and on-going cooperation

As a consequence of the May 2000 coup, cooperation with Fiji was suspended under Article 96 of the Cotonou Agreement. In August 2001 general elections were held, which were considered by independent observers to be free and fair, and in February 2002 part of the sanctions were lifted, i.e. implementation of the 8th and previous EDFs was authorised. Signature of the 9th EDF Country Support Paper (CSP) and implementation of the 9th EDF were however kept on hold, pending the execution by the government of the Supreme Court's decision on the constitutionality of the composition of government. The Court met in June 2003 and shortly after its decision the government reacted with a proposal to the Fiji Labour Party (FLP).

Although at the end of 2003 the government and the FLP were still discussing the matter and no FLP member had yet been included in the government, the European Union considered that the government had fulfilled the Court's instructions and therefore a decision was taken to sign the 9th EDF CSP and implement the 9th EDF. The signing of the EDF 9 took place during Commissioner Nielson's visit to Fiji in February 2004.

9th EDF Focal sector – Education

The CSP foresees an allocation of €20.5 million for Education, including participation of the NSA and an allocation of €0.5 million for non-identified operations outside the focal sector. Subsequently it was jointly decided to use the total allocation of €21 million for Education.

a) Results

The identification study for the EU component of the Fiji Education Sector Programme was carried out during the first half of 2003, by a team of USP (University of the South Pacific) consultants. The study was more grass-root based and the consultants visited all

provinces, including some of the most remote islands and villages in the mountain areas. Meetings with the communities were held in the vernacular languages and in the traditional way: at the end of the working day, around the kava bowl.

Consequently a draft Financing Proposal was prepared and discussed widely with the NAO and Commission services, Ministry of Education and Ministry of Youth, other donors and, very importantly, with a very wide representation of NSA, including the Teachers' union. All approved the approach suggested by the consultants and all comments consisted of requests for addition of details or small changes, not affecting the concept of the programme.

After incorporation of all comments the Financing Proposal was officially sent to headquarters in December 2003, for finalization and approval. The Financing Agreement was signed in Suva on 9 September 2004.

b) Progress in activities

During the year the Delegation continued close coordination with other donors active in the sector, in particular with AusAid and JICA and with the NSA. Both donors allocate substantial resources to the sector and AusAid initiated its Fiji Education Sector Programme in mid-2003. Strong complementarity between the three assistance programmes is thus high on the donors' agenda; a requirement shared by the Fiji authorities and Ministry of Education staff.

Albeit the constraints imposed by the remaining Art 96 measures, the Delegation was allowed to pursue the identification study, thus achieving the above results. Therefore the year 2003 was used profitably with the Financing Agreement ready for signature shortly after signature of the CSP.

Balances from previous EDFs

Only one project was awaiting closure: the Micro-projects programme No. 7 FIJ 26, of which the balance expected is less than € 30.000. The Delegation has been in contact with the NAO's office and the Ministry of Education in view of a speedy closure of the project and de-commitment of all balances.

By end 2003 all 8th EDF has been committed. There are approximately € 1.5 million uncommitted balances, almost all of which is from the 6th EDF. These are likely to be used to top-up the Environment programme (cf. below), and any remaining balance remain after that, they can be added to the 9th EDF funds for Education.

8th EDF focal sector I – Human Resources Development

a) Results

The first focal sector of the 8th EDF concentrates on the improvement of the Human Resources sector, with a special focus on primary education, and vocational and public

sector training. The programme initially covered three projects (all infrastructures): Fiji School of Medicine (FSM), Lautoka Teachers College (LTC) and Fiji Institute of Technology (FIT). As the final 30% allocation of the 8th EDF NIP has not been released due to implementation delays, the FIT project has been cancelled, while the FSM project is being financed under regional funds.

The Financing Agreement for LTC was signed by the NAO and the Head of Delegation in January 2003, for an amount of € 4.15 million. During the year of reporting the government carried out the tender for the extension of the campus (including teaching and lecture blocks, library and accommodation). Altogether, the HRD components (design, supervision and construction) account for 31% of the 8th EDF National Indicative Programme.

b) Progress in activities

LTC tender was launched in May 2003. Four offers were submitted. There were four (4) bidders submitted in August and the tender was awarded to J. S. Hill in December 2003. The works contract was expected to be signed in February 2004. The contract period is 12 months.

8th EDF focal sector II – Environment

a) Results

The environment programme under the 8th EDF focuses on two main areas: solid and liquid waste treatment and disposal, with the construction of the Naboro landfill and the outfall for the Kinoya Sewage Treatment plant. Its aim is to improve the living conditions of urban population in the greater Suva area.

The Financing Agreement for the environment programme was signed in 2002 for an amount of € 8.5 millions. A rider of € 0.6 million has also been issued, to cover the high cost of the liquid waste component. In 2003, the government dealt with the tendering process of the Kinoya Outfall and the follow-up of the construction activities of the Naboro Landfill. Altogether, the environment components (design, supervision and construction) account for 54% of the 8th EDF National Indicative Programme.

b) Progress in activities

Solid waste component, € 4.4 million

In 2003, the construction of the Naboro landfill has gone ahead with the completion of the project expected for June 2004. The government started tackling the institutional set up (landfill operator, legislation, tenure and asset retention, landowner participation) of the project relatively late (May 2003), with the help of a project manager hired under the contingency fund of the financing agreement. The cabinet has for the moment given its approval for a Joint Venture (JV) between local councils and a professional landfill

operating company to manage the landfill, but the councils have not yet reached an agreement regarding this JV. It looks now unlikely that a successful JV arrangement will eventuate before June, therefore the government is starting looking at a direct contract with a professional operator. The government is targeting the opening of the landfill for the 1st of October 2004.

Draft tender documents were also submitted for the rehabilitation of the existing dumps. The first estimation is that the initial budget of € 400,000 will not suffice for the works.

Liquid waste component, € 4.1 million

The international tender, launched in 2002, was unsuccessful. The government of Fiji agreed on the reduction of the scope of work of the Kinoya Outfall and launched a restricted tender in July 2003, which was awarded to McConnell Dowell early December. The works contract was signed on the 17th of December 2003 and will last 12 months.

Public Awareness Campaign € 0.15 million

After difficulties in recruiting suitable firms to carry out the Public Awareness Campaign (PAC), it has been decided to allocate the funds initially foreseen for the PAC to the rehabilitation of the existing dumps.

Projects and programmes outside focal sectors

- **Rewa Bridge**

The design and construction of the Rewa Bridge was originally financed under the 7th EDF NIP. Since the cost estimate at the time of the design was above the initial budget, the project was delayed until a new financing agreement could be signed in 2002, for an amount of € 11 million. The tender, launched in 2002, was awarded to Fletcher at the end of 2003, after the government agreed to allocate an additional € 2.5 million to the project, as all the offers were above the € 11 million budget. The works contract was signed on the 17th of December 2003, for a 24 months-duration.

This bridge is a strategic infrastructure in the Suva-Nausori area and the main link between Suva and the North of Viti Levu. The start of the construction has become urgent, as the old two-lane bridge is often affected by heavy traffic and or closed due to structural problems.

- **Cyclone Ami rehabilitation programme**

The project (€ 500,000) started in April 2003, 3 months only after the cyclone. The progress has been very slow, with only 6 schools completed in January 2004, out of a total of 40.

- **Rural schools rehabilitation Microprojects**

This project (€ 500,000) is awaiting closure, provided the Ministry of Education submits the revised final progress report and invoice.

Utilization of resources for non-State actors (NSA)

Please refer to Community budget-lines (below), as no NIP funds were committed for this purpose as yet, due to the impossibility of accessing 9th EDF funds for the reasons explained above.

Utilization of the envelope-B

Fiji, like all the other Pacific Island countries, is very vulnerable to a number of natural disasters: cyclones, tidal waves, earthquakes, droughts, volcanic activity. Several cyclones occur each year in the region and given the expanse of Fiji's 300+ islands there is a high probability of some of them being hit. For instance, the year 2003 started with cyclone Ami badly affecting several islands in the North and Eastern parts of the country, causing the loss of several lives and extensive damages to buildings (schools, clinics, homes, etc.) and crops. At that time we could not mobilize the envelope-B resources for reconstruction purposes because the CSP was not yet signed, but it illustrates the need to foresee this type of occurrence in the future.

For these reasons it was agreed to use the €2.1 million under the envelope-B primarily for the purposes of emergency and/or reconstruction, in case of natural disasters. Should no such needs occur until the last year of implementation of the Fiji Education Sector Programme (2007/2008), and if implementation of this programme is going well, the envelope-B will be used to complement the programme's €21 million allocation.

5. Other instruments

European Investment Bank

Construction of the Novotel Denarau hotel - a loan proposal comprising €6 million to Richmond Limited (subsidiary of Air Pacific) and €5 million to Colonial Fiji was approved and the contractual documents will be signed early in 2004.

The EIB is also negotiating other possible projects with the Government of Fiji, in particular the construction of a Wind Farm in Butoni and of the Savusavu port. The Butoni wind farm is part of the Fiji Electricity Authority's plans to increase the production of electricity from renewable sources. Savusavu is a large bay in the Southern part of the island of Vanua Levu (the second largest island of Fiji) used currently as a natural harbour for yachts. The construction of an international port is a precondition for the development of Vanua Levu and Savusavu seems to have the best natural conditions for this.

Regional Cooperation

9th EDF

The regional allocation amounts to €29 million and includes three focal sectors “Economic Integration and Trade” (€9 million), “Human Resources Development” (€8 million) and “Fisheries” (€5 million) and a non-focal sector, for extension of the 8th EDF programmes to the 6 new ACP countries (€7 million). The RSP was signed in 2002 by Commissioner Nielson, during his first visit to the Pacific.

- **“Regional Economic Integration Programme” (REIP) - €9.2 million**

The programme aims to assist the region in strengthening its capacity to implement PICTA (free trade area among the Pacific island countries), negotiate trade agreements with developed partners (eg.: EPA), participate in multilateral trade negotiations (WTO) and assist the private sector in addressing supply-side constraints.

The EDF approved the programme in its November meeting and at the end of the year the Financing Agreement had been finalised. It was officially signed, together with the Contribution Agreement, by the RAO and the Commissioner during his visit to Fiji in February 2004. Disbursements started immediately after. This schedule matches last year’s forecasts, which had indicated early 2004 for start of implementation.

- **“Human Resources Development” (HRD) – PRIDE programme - €8 million**

The objective of the programme is two-pronged: to assist Pacific island countries (PICs) in developing a sector-wide strategy for Education and subsequently to finance the implementation of some parts of that strategy. Most PICs have identified Education as a focal sector in their NIP and a number of other donors are very active in the sector in all of them. Therefore the parts of the strategies that have a more national character will be implemented with national funding (both governments’ own resources and donors’) and those that have the capacity to be shared by the region can be selected for funding by this programme. The programme is implemented by the Institute of Education of the University of the South Pacific.

The financing proposal was finalised during 2003 and approved by the EDF Committee in September. Both the Financing Agreement and Contribution Agreement were signed in Suva in November 2003.

A very positive development occurred during 2003: at the invitation of the Pacific Island Countries, led by Samoa, and with the consent of the Commission, NZAid agreed to provide funding for PRIDE, to the tune of NZD 5 million for three years, with the possibility of additional funding after that. This allowed USP to proceed with the recruitment of the project management team during the second half of 2003. At the end of the year all but one element of the team have been selected and all have either ACP or

EU nationality. USP is also finalizing works in the PRIDE office building. The team has started working since February 2004.

Implementation of this programme went faster than expected: we had forecasted implementation to start early 2004, but at the end of 2003 almost all the team has already been selected and works in the office were almost completed.

- **“Fisheries” - €5 million**

This section will be composed of two projects:

- a) Extension of PROCFISH to the 6 new ACPs - €1.997 million

The complementary financing proposal was approved. The Financing Agreement will be signed in February 2004, during Commissioner Nielson’s visit to Fiji, for immediate implementation (cf. 8th EDF, below, for further details on PROCFISH).

- b) DEV FISH, a project to be managed by the Forum Fisheries Agency (FFA) in collaboration with the Secretariat of the Pacific Community (SPC) - €3 million

The objective of the project is to increase the benefits received by PICs from sustainable use of marine resources, by increasing the capacity of PICs to directly participate in the tuna fishing and processing industry, and reinforcing national and regional policies and strategies for the sector.

The financing proposal was being finalized by headquarters in view of a decision by mid-2004. Implementation should start immediately after.

- **Non-focal sector - €7 million**

The non-focal sector is composed of extensions for the new 6 ACP countries and the Palau Festival of Arts:

- a) All extensions refer to the participation of the 6 new ACP countries (Cook Islands, Federated States of Micronesia, Nauru, Niue, Palau and the Republic of the Marshall Islands), which cannot benefit from 8th EDF funding, in projects recently approved and financed under the 8th EDF. Three extension proposals were approved during 2003 and one other is being finalised, as per the table below.

PROJECT	EURO Millions	EDF SOURCE	STATUS
SPC/DSAP ext.	1.981	9th NF	Approved. FA to be signed by Com. Nielson in Feb 2004
SPC/PPP ext.	1.512	9th NF	Approved. FA to be signed by Com. Nielson in Feb 2004

SOPAC ext.	2.55	9th NF	Approved. FA to be signed during the first quarter of 2004
SPREP/PIEN ext.	0.56	9th NF	being finalised by HQ in view of a decision by mid-2004

b) The **Palau Festival of Arts** is to be co-financed with the Pacific OCT: € 330.000 from the 9th EDF RIP (including balances of previous EDFs, transferred into the 9th) and € 250.000 from the OCTs. The RIP part will finance the purchase of sound and light equipment, its installation and training of Festival staff for its operation. The OCT part will finance lodging, local transport and catering for the participants from the French Pacific territories. The Festival took place in Palau in July 2004 and the organisation requested to start tendering for the sound and light equipment in November 2003.

8th EDF and balances of previous EDFs

At the end of 2003 all 8th EDF and most balances of previous EDFs were committed. The second phase of the TA to the RAO project (€1.3 million), financed from 6th and 7th EDF balances, started implementation on January 1st 2004, the day after the previous team ends its contract. The 8th EDF is advancing according to schedule, a table providing information on each project's progress in annexed.

A total of € 461.779,83, from previous EDFs, was added to the 9th EDF allocation. Once all the projects identified above have been approved only €330.000 will remain uncommitted. This will be used for any necessary studies, in particular in view of preparing financing proposals to substantiate the RAO's intention to request additional funding during the mid-term review of the 9th EDF.

Community budget-lines

2003 was the final year of activities for the project "Promoting Sustainable Democratization in Fiji: the Civic Challenge", implemented by the Citizen's Constitutional Forum (CCF), under the Democracy and Human Rights budget line. CCF continued their activities with the support of the programme, promoting advocacy mainly in the areas of human rights (Bill of Rights) and rule of law, including intra-family violence and rights of women and children.

In particular the CCF:

- Organized a workshop on the multi party government, in anticipation of a decision in favor of the constitutional directive for the formulation of a multi party government as stated in section 99 of the 1997 Constitution.
- Published material on multiparty government, which were circulated widely, including members of parliament.
- Major articles were published in the print media, including public lectures and radio talk back shows to create an interest in public discussion on multiparty cabinet as an instrument for democratic change in Fiji.

Two new projects under the European Initiative for Democracy and Human Rights budget line were approved. There were the (1) University of the South Pacific (USP), titled “Transforming communities through good governance” and (2) with the Fiji Human Rights Commission (FHRC), titled “Capacity Building of the Fiji Human Rights Commission”. Both projects were identified for assistance by the European Commission. Recruitment of personnel was continued at the end of the year.

The project with USP will contribute to establishing and promoting the University as a good governance resource base for the region. As many of the region’s future leaders are and will continue to be coming out of USP, therefore creating a solid base on good governance is vital for the region’s future development prospects. While the project with FHRC will see the establishment of a series of distinct Units within the Commission with specific mandate for educating the public on human rights policy and issues and to take responsibility for building the capacity of the Commission in race relations, human rights education and the development of human rights policies of the Commission.

Under the “open call for proposals” under the same budget line, two projects were successful and will receive funding from 2004: 1) “Governing water” to be implemented by Live and Learn and 2) “Democratisation, human rights and ethnic group reconciliation in Fiji” to be implemented by the Citizens Constitutional Forum (CCF).

Live and Learn will use water as a community entry issue, an issue that affects all ethnic groups and provides a practical and physical meaning to daily lives, to help demonstrate that good governance also concerns the grassroots level and is based around the principle of working together through a process of dialogue and inclusion. The project aims to raise awareness about good governance and promote inter-ethnic dialogue using water as a community entry issue by targeting 46 urban and rural communities in Suva, Nadi, Lautoka and Labasa. The project aims to heighten awareness in communities about good governance and sound decision-making processes concerning usage of local water resources, and strengthen inter-ethnic and gender balanced dialogue in relation to governance of water.

The new CCF project aims to promote awareness among all Fiji communities about human, civic and group rights. It seeks to facilitate reconciliation between ethnic groups by assisting communities to resolve underlying issues that bring about ethnic division, and help strengthen democratic processes and institutions. Young people, women, community and ethnic group leaders, security forces, state institutions, non government organizations, political parties and Fiji citizens in general will be CCF’s focus audience for the project’s cycle. Inter-ethnic group workshops, human rights education supported by multimedia resources, research and advocacy on constitutional, land and resource issues, civil society capacity building to promote human rights and inter-ethnic group understanding through grassroots work on targeted groups will be used as tools to implement the project. Besides enhancing inter-ethnic group understanding and reconciliation via human rights education, the project will promote greater respect for obligations under international law, respect for the Fiji Constitution and adherence to the

rule of law by government, agencies, political parties, security forces, traditional leaders, NGOs and civil society. The human rights and democracy project will also facilitate dialogue between state institutions like the Native Lands Trust Board (NLTB), government officers, land owners, community leaders and civil society, aimed at resolving governance, constitutional, land and resource-related issues over which parties and ethnic communities continue to remain divided.

Budget line “Tropical Forests & Other Forests/ Environment in developing countries”

Fiji is also benefiting from two projects that received funding in 2003, under the budget line “Tropical Forests & Other Forests/ Environment in developing countries”:

- 1) “The Coral Gardens Initiative: Poverty alleviation through capacity building in Community – based fisheries management and coral reef restoration” a project implemented by Just World Partners of UK and The Foundation of the Peoples of the South Pacific International, Suva, Fiji;
- 2) “Sustainable management of sites globally important for biodiversity in the Pacific” implemented by Birdlife International (UK)

The “coral gardens” two-years project (543.000 €) covers in the Pacific region, the countries of Tuvalu, Kiribati, Solomon Islands for scoping studies, while Fiji is a base for Training of Trainers. The project aims to promote the Barbados Programme of Action for poverty alleviation of Small Island States through the promotion of a ground breaking model of community-based coral reef management that restores overfished and degraded marine resources essential to subsistence and cash economies. Communities will be selected based on regional scoping studies, and individuals from each will be trained in tools of participatory community resource management and appropriate methods of coral reef conservation, habitat restoration and reef-based income generation. Training of trainers will take place in established Coral Gardens pilot sites in Fiji. The project will support the design of trail sites by the trainees returning to their home countries in the Pacific and Caribbean. This project will enable poverty reduction through delivery of a framework for sustainable forest management and by raising awareness and capacity at all levels to enable community driven management actions.

The “Sustainable management of sites globally important for biodiversity” four-year project (1.292.000€) seeks to reduce poverty through delivery of a framework for sustainable forest management and by raising awareness and capacity at all levels to enable community-driven management actions. To achieve this goal the project will run desk-based review in each country and will draw a list of sites of global importance for biodiversity. A Comprehensive project fieldwork will then be undertaken in Palau, Fiji, New Caledonia and French Polynesia. As part of its objectives, the project aims at increasing national and local of sustainable forest management for benefit of subsistence communities and biodiversity. Regional capacity for sustainable forest use will be built

through effective linkages (workshops, visits) and skills-share between small island nations.

Sugar protocol

Fiji is one of the main beneficiaries of the Sugar Protocol (the second, after Mauritius). Exports sharply dropped in 2001 and have not recovered since, due to the problems affecting the Fiji Sugar industry and referring mainly to: expiry of land leases and consequent smaller cultivated areas and inefficient husbandry and production practices. During 2003 the Government of Fiji has discussed with international Development Banks and with the Government of India for assistance to restructure the sector.

In 2003 Fiji exported an estimated 182.655 tons of sugar to the EU market, valued at Fj\$188.915.971 (approx €94 million), of which 169.831 (Fj\$176.515.548, approx €88 million) under the Sugar Protocol and 12.824 (Fj\$12.824, approx €6 million) under the SPS regime.

Export Sugar Net Proceeds for Sugar:

EU Market		2000	2001	2002	2003 (est.)
Sugar Protocol	Ton Delivered	188.665	176.571	178.805	169.831
	Net Value Fj\$	178.429.900	172.868.618	185.576.293	176.515.548
SPS	Ton Delivered	20.331	18.963	17.423	12.824
	Net Value Fj\$	15.623.212	19.482.962	17.439.621	12.400.423

NOTE: value per ton oscillates due to fluctuations in exchange rate. Prices are fixed per quota period (July/June) and have remained unchanged for some years.

Source: Fiji Sugar Marketing Co. Ltd.

6. Programming perspectives for the following years

6.1. Integration of new EC/EU policy initiatives and commitments

Fiji has been identified as a focus country for the years 2002-2004 under the budget-line for the European Initiative for Human Rights and Democracy, benefiting of an initial allocation of €1.3 million for 2002 and similar ones for the two following years. Activities financed under this allocation are described above. New projects, implemented by other or the same partners may still be identified in 2004. A series of other donors (UNDP, DFID, Australia, NZ, Japan) are interested and active in this sector. Coordination is led by the UNDP.

Fisheries, tourism, trade and disaster preparedness are areas of particular relevance in the context of Fiji-EU cooperation. All receive support under the 8th and 9th EDF regional programme referred to above.

Of particular relevance for Fiji is the link between the NIP and the HRD programme under the 9th EDF PRIP. It is expected that Fiji will benefit from the regional programme to strengthen its Education planning capacity and strategy for the sector. The country will also benefit from regional funding for implementation of some aspects of the strategy and, most importantly, Fiji will benefit from the building of a pool of knowledge on Pacific Education reforms, allowing for the sharing of good practices and for learning from other countries' experiences.

6.2. Review and adaptation of the CSP

It is proposed to have no change of strategy at the Mid-Term Review (MTR) and to confirm the allocation of the full amount of the 9th EDF (€21 million) for the Education Sector in Fiji.

This will be implemented by a single programme, including the NSA allocation (see above), the financing proposal of which is currently being assessed by the Commission headquarters' services. Approval of the €21 million Fiji Education Sector Programme is expected by mid-2004 and disbursements will start during the second half of 2004, following signature of the Financing Agreement, possibly in July (table enclosed).

6.3 Donor coordination

Donor coordination takes place on a regular basis, not only between the EC and the two Member States represented in Fiji, France and the U.K., but also with other donor countries and organisations, on political and cooperation issues, as well as with trade issues and aid to the NSA sector.

The table below indicates the actual and forecasted amounts for donor assistance for the period 2002-2006 in FJ \$.

Donor	2002 Actual \$m	2003 Estimate \$m	2004 Forecast \$m	2005 Forecast \$m	2006 Forecast \$m
Australia	6.8	15.65	12.26	7.65	7.63
Canada	0.25	0.25	0.27	0.13	0.0
China	2.75	6.00	2.00	1.50	0.0
EU	12.84	23.58	27.82	17.0	10.0
Japan	4.80	8.22	12.99	8.50	8.00
Korea	0.20	0.20	0.0	0.0	0.0
New Zealand	0.86	3.43	1.05	0.71	0.71
UNDP	0.25	0.98	1.63	0.27	0.27
Others	1.60	2.69	2.96	1.72	2.36
Total	30.35	61.00	60.98	37.48	28.97

Source: Ministry of Finance and National Planning (revised)

Conclusions of the joint annual report

In Fiji the NAO is the Permanent Secretary for Finance, Mr Tevita Banuve. As in previous years, dialogue with the NAO and other national authorities proceeds constructively, focusing both on political issues and development cooperation matters.

Fiji is at a crossroads. The country has progressed in re-establishing a climate of stability since the May 2000 coup. However Fiji is a small, open and isolated economy that does not offer a wide variety of opportunities and a number of weaknesses persist which will be difficult to eliminate in the short-term:

- high unemployment (the official figures are not high for a developing country but subsistence farmers in the most remote areas of the country, who do not appear in the unemployment figures, live virtually outside the cash economy) and wages often below the poverty line
- scarcity of well trained manpower in technical areas and management
- poor infrastructure outside urban areas (transport and communications, water and sanitation, education, health)
- political parties divided along racial lines, facilitating manipulation of racial intolerance and social dissension
- economy and social fabric highly dependant on sugar, an industry so far operating under the ACP preferential regime and in dire need of restructure. Its reform is rendered particularly difficult due to the high involvement of political forces in the sector.

The mid-to-long term prospects of the country strongly depend on the governments' capacity to maintain socio-political stability and to stimulate investment, preferably in new and diversified sectors. Improvements in the country's education and infrastructure systems will be pivotal in this process.

In what concerns cooperation with the EU, and in particular the 9th EDF, Education has been approved as the single focal sector. Both parties (NAO and Commission) wished to confirm this choice at the time of the MTR.

Involvement of the NSA in the 9th EDF has been progressing satisfactorily. It will certainly become even more energetic once implementation starts and the NSA will be able to benefit from direct funding under the programme. The Delegation takes every opportunity to invite the NSA for a dialogue session, in particular on the occasion of missions from headquarters. These meetings are always much appreciated because they provide an opportunity for a frank exchange of views with a very diverse panel of people, all of which with close contact with the Fijian society at different levels.

The Fiji authorities have been following the same approach and a wide representation of NSA have systematically been consulted on all major aspects referring to programming and programme design, and they will be directly involved in the implementation of the 9th EDF programme: over 90% of the schools in Fiji are privately owned, mostly by communities (religious and other) and they will be among the first beneficiaries of the rural education programme.

Post scriptum

Taking into account the political relevance of the Council decision of 17 November 2003, the social sensitivity of the Education sector in relation to the ongoing national reconciliation process, its influence on the stability of the country at the grass root level, MTR 2004 agreed to have no change of strategy and confirmed the allocation of the full amount of the 9th EDF for the Education Sector in Fiji (€ 21 million).

The A allocation of € 21.0 million is to be implemented in the focal sector under the leadership of the Ministry of Education and the Ministry of Youth and Employment with direct participation of Non State Actors.

In addition it was agreed to leave untouched the B envelope (€ 2.1 million), to be used for unforeseen natural disasters, cyclone recovery operations and/or other emergency needs since Fiji, like other Pacific islands, is very vulnerable to natural disasters, in particular cyclones, and lacks proper disaster preparedness and prevention mechanisms.

9th EDF

1. Intervention framework

Policy measures – Education

Education is the government's top priority. It has received the highest allocation in the national budget in the past years and this is again the case for the 2004 budget, which allocates 18.5% (up from 17% in 2003) for education. This percentage is viewed as an appropriate balance between needs and financial prudence. The government further increases the resources available for education by requesting donor assistance for the sector. A wide number of donors support either individual schools or the activities launched by the Ministries of Education and of Youth (see table) and these resources will be further increased once the 9th EDF programme starts implementation. Education is a long-term investment and it is our view that this level of financial allocation must be maintained, or increased in the future if the country's fiscal position allows, if the desired results are to be attained.

Education in Fiji is still divided along racial lines, contributing to perpetuate a schism within the society, which in turn constitutes one of the highest risks for the country's stability and future prospects. Education in Fiji must be called to play a role in building an inclusive and cohesive society which does not discriminate against any of its citizens.

Education in Fiji and other countries of the Pacific is often seen as severed from its cultural roots, a consequence of Colonial influence. What children learn in school has little links with their lives outside school, with what they share with their families and communities. The same applies to the teachers. This is one of the reasons Pacific educationalists identify as being responsible for inadequate teaching methods and consequent poor learning outcomes. PRIDE, funded under the 9th EDF regional programme, will have this issue high among its priorities. It is expected that the strategies developed under PRIDE will, in the mid-to-long term, contribute to bringing education contents and practices, in areas such as curriculum development and teacher training, closer to the cultures and values of the Pacific and, consequently, facilitate the learning process and achieve deeper learning outcomes.

Indicator data and targets – Education

Indicators for the Fiji Education Sector Programme are currently being developed. Given their present unavailability, the identification study for the EDF's contribution to the Programme proposes:

- 4 impact indicators (long-term) based on MoE's strategy and for which the source of verification will be MoE annual statistics:
 1. student retention rate;
 2. examination results in literacy (English, Fijian, Hindi), maths and science;
 3. percentage of schools rating classrooms as adequate.

The other impact indicator refers to non-formal education:

4. number of enterprise projects established yearly by ex-trainees of rural youth training programmes.

- short-term indicators, will be identified annually as part of the annual work programmes and cost-estimates and will stem directly from the activities identified (eg. number of schools refurbished, number of formal and non-formal training courses delivered, such equipment delivered, etc.).

2. Chronogramme of activities

Titles	Amount (in € million)	Financing decision	Start of implementation
Education sector programme (including support to NSA)	21.000	Mid-2004	3 rd quarter 2004
Total	21.000		

3. Indicative timetable for commitments and disbursements

Education sector programme (inc. support to NSA)	2004	2005	2006	2007	2008
Commitments (in € million)	0.25 (3 rd quarter)	4 (1 st quarter)	5 (1 st quarter)	5.5 (1 st quarter)	6.25 (1 st quarter)
Disbursements (in € million)	0.2 (by 4 th quarter)	3.5 (by 4 th quarter)	4.5 (by 4 th quarter)	5 (by 4 th quarter)	6 (by 4 th quarter)
Total (cumulative)	0.25	4.25	9.25	14.75	21

Annex 2

Select macro indicators: income, health, mortality, education

Type	Indicator	2000	2001	2002	2003	2004
Impact:	1. GDP per capita (current prices FJ\$)	4324	4625	4797	5196	5550 *
	2. Prevalence of underweight children (under five years of age)	8.0% (1997)	---	---	---	---
	Life expectancy (M/F)	65/68	65.8/70	68/71	---	---
	3. Infant mortality rate (per 1,000 live births)	16	14.1	---	---	---
Outcome:	4. Primary school enrolment (net)	100.9**	---	---	---	---
	5. Primary completion rate	NA	---	---	---	---
	6. Ratio of girls to boys in:		---	---	---	---
	<i>primary education</i>	0.98**	---	---	---	---
	<i>secondary education</i>	0.95**	---	---	---	---
	<i>tertiary education</i>	NA	---	---	---	---
	7. Proportion of births attended by skilled health personnel	99%	99%	---	---	---
	8. Proportion of immunisation coverage against measles	95%	95%	---	---	---
	9. No of new HIV/AIDS cases reported among adults	0.1% ***	---	---	---	---
	10. Proportion of population with sustainable access to safe drinking water.	---	---	77%	---	---

* estimated 1 € = 2.1 FJ\$ (2004) ** 1998 *** 1999 Sources : ADB and Government of Fiji.

Draft Environmental Profile FIJI

This draft document will be completed during the Country Annual Review 2005

1. BACKGROUND

Fiji is an archipelago of over 330 islands scattered over approximately 1.26 million sq km of the South Pacific Ocean. Its total land area is about 18 330 sq km and the maximum height is 1 324 m above sea level. The population of Fiji was estimated at 824,526 (in 2002), with most people being located on the two main islands Viti Levu and Vanua Levu. The majority of the population is made up of two ethnic groups – indigenous Fijians and Indians. The remaining people who account for about 5% of the population are Rotumans, Chinese, Europeans, part-Europeans and others.

Situated in the tropics, Fiji has a tropical maritime climate with frequent torrential rain. Catastrophic climatic events such as cyclones can occur from November to April and these can trigger flooding in low lying areas. Changing weather patterns is also a cause of droughts in the country. All these events have major effects on the economy and infrastructure. The sugar, garment and tourism industries are the mainstays of the economy in Fiji. However, agriculture, fisheries, forestry and gold also contribute to the export earnings of the country.

2. ISSUES

There are several resource and environmental issues, common to island nations, affecting sustainable development in the Fiji Islands. These include an array of issues from climate and sea-level variability, environmental degradation and pollution to resource management.

2.1 Common characteristics of Pacific Island Countries

This description draws from the Pacific Island Countries presentation to the UN Conference on Environment and Development , The Pacific Way (SPC 1992), as reported in the ADB Pacific Region Environmental Strategy 2005-2009 Discussion Draft June 2003.

Geographical isolation. Though communications have been improved, the geographic position of the Pacific Island Countries continues to present a fundamental challenge to development, and it has also contributed to the specialized ecosystems, species endemism, and vulnerability to invasive species that occur in the region.

Fragile Island Environments. Island environments have the highest rates of species extinction globally, and recent evidence of the negative impact of ocean temperature rise

on the health of coral reef (through the “bleaching” effect) is indicative of the relative fragility of the island ecosystems.

Limited Land Resources . Fragility of ecosystems is often compounded by their small size. Limited land resources make many terrestrial and near shore resources, including freshwater , vulnerable to over exploitation and pollution from poorly planned waste disposal. Limited land resources have become especially troubling for low lying atolls, in view of the projected rates of sea level rise over the next 50-100 years.

Rapid Population Growth . Rebounding from the depopulating diseases of first contact with colonial powers , Pacific Island Countries’ populations have grown rapidly over the past 100 years, and this has been linked to the degradation of forests and fisheries and to loss of species. These pressures are easing now as population growth rates are beginning to slow and are further offset in some places by an upward trend of out migration.

Dependence on Marine Resources . With the exception of some higher islands , there remains a strong dependence on marine resources to meet daily needs of many Pacific families – providing foods , tool , transport , and waste disposal. This may be slowly weakening in certain areas with the increase in international trade , but it remains a fundamental characteristics of the smaller atoll-dominated Pacific Island countries such as Kiribati, Marshall Islands and Tuvalu.

Vulnerability. This trait of the Pacific islands countries has received increasing attention over the last decade. Exposure to natural disasters and to external global perturbations (for instance in climate change, trade, and capital markets) and a heavy reliance on a limited range of economic sectors, creates a high degree of vulnerability. Moreover, the factors contributing to islands vulnerability appears to have increased in recent years. The baseline of assets and live at risks is also increasing as population and infrastructure located in coastal areas expand and Pacific island economies open to global economy.

2.2 Environmental issues affecting Fiji

This part of the document heavily relies on available scientific material made available by SOPAC, the South Pacific Applied Geoscience Commission and SPREP South Pacific Regional Environmental Programme. We would like to SOPAC and SPREP for the valuable input provided.

1. Water and Sanitation

Fresh water is a fundamental resource for small island nations. Most development plans are pivotal on the availability of fresh water. Clean water and proper sanitation enhance the health and productivity of the work force and have particular implications for the children and future generations. Fiji is better off than many Pacific Island nations as about 70% of the population has access to proper piped water supplies. However, as demand increases, proactive measures are needed to increase supply and reach.

Sanitation and garbage disposal is a major predicament for small land scarce islands with fragile ecosystems. Only 12% of Fiji's population has access to sewage treatment facilities. Landfills are operated for urban waste disposal. The growth of the tourism and hospitality industry has made it essential to develop better waste management systems and strategies for Fiji. Hygienic and sustainable disposal of sewage is important not only to maintain the ecological balance, but also to protect the health of the people.

2. Geo-hazards and Climate Change

Geo-hazards are real threats to Fiji, given its location in the seismically active Pacific 'Ring of Fire'. Fiji also falls in a tropical cyclone belt with an average of one cyclone passing through Fiji waters every year. Cyclones have had disastrous effects on Fiji, with large amounts of national development funds having to be diverted for mitigation. For instance, the damage caused by Cyclone Kina in 1993 was valued at US\$124 million, while Cyclone Ami in 2003 affected more than 90 000 people (10 % of population) by destroying more than 7000 houses.

Being in a seismically active zone, Fiji stands the risk of experiencing immensely destructive earthquakes. The 1953 earthquake in Suva caused extensive damage to buildings and total destruction of the wharf, and generated a tsunami that killed six people. Research shows that there is roughly a 10% chance of a similar intensity earthquake striking Fiji in any 50-year period. Given the rapid urban development that has taken place in the interim, the effects of such an earthquake in Suva or any of the major towns could be devastating.

Global climate variability may be responsible for increasingly more-frequent and more-severe cyclones, interspersed with scorching droughts. The impact of this variable climate has been harsh on ecosystems and coastal, terrestrial and marine biodiversity. Economically the impact has been translated into decreased agricultural yield, death of livestock and loss of marine biodiversity. As the majority of the people dependent on these sources are poor, the poverty implication of variable climate is high.

The Intergovernmental Panel on Climate Change (IPCC) predicts that there will be a 10-30 cm rise in sea level by the year 2030 and 30-100 cm by the end of 21st century. This prediction can also have serious implications for sustainable development of Fiji as any increase in sea level will have significant negative effects. Several Fiji islands (and/or part of them) might experience accelerated coastal erosion and saltwater intrusion, which will cause even greater scarcity of the limited freshwater resources.

The El Niño Southern Oscillation Index (ENSO) effect caused by regional atmospheric variations has had drastic effects on the precipitation and climate patterns in Fiji. The ENSO effect led to an extended drought in the northern and western parts of the two main islands of Fiji in 1997-98, with a consequent debilitating effect on the economy, as losses to the sugar industry alone totaled F\$150 million.

In addition as experienced also in 2004, damage to infrastructure by flooding, coastal inundation, wave run up and tidal surges usually produces serious damages and loss of lives. Poor building standards could aggravate the human catastrophe and infrastructural

damage. Given the high cost that disaster mitigation expenditure has, hazard assessment and disaster mitigation are of crucial importance to high-risk countries like Fiji.

3. Coastal management

Fiji has very distinctive coastal areas comprising features such as fringing reefs, lagoons, natural beaches, sea-grass beds and mangroves. There have been rapid changes in the coastal geography associated with increasing reclamation as a part of burgeoning tourism and urbanization. To protect reclaimed land from the onslaught of the sea, various protection systems such as concrete walls, groynes and riprap revetments have been constructed haphazardly. However, the success of these protection structures has been minimal owing to a lack of understanding of the wave and current pattern around the islands, and the misconception that coasts are inherently and eternally stable. Poor construction and development practices, indiscriminate reclamation and aggregate mining in the reef areas cause coastal instability and beach erosion. In addition, coastal pollution damages the reef.

4. Exploitation of natural resources

The Fiji economy has a very narrow base, with its performance heavily dependent on the success of a few industries, namely tourism, sugar and garments. The economy has traditionally been dominated by primary industry productions, but this trend is slowly changing as other sectors of the economy develop. Agriculture, however, remains the mainstay and the largest sector of Fiji's economy. The increased demand being placed on the limited natural resources makes sustainable development imperative for Fiji.

Land degradation

Land degradation results from various factors including climatic variations and human activities. Land degradation reduces soil fertility and soil structure, hence reducing its potential yielding capacity. Increases in Fiji's population over recent decades have placed pressure on the land, particularly marginal land, and this has resulted in significant land degradation and soil erosion. About 60% of the population resides in the rural areas. The small farm size (60% are less than 3 ha) force farmers into intensive cultivation (often mono-cropping) for high output, short-term production without (or minimal) fallow periods. With competition and pressure for land, subsistence gardens are increasingly being forced into steeper slopes because of the expansion of cash cropping and grazing on flatter lands. Soil loss measurements indicate that the agricultural productive base in many sugar cane areas, and with ginger on slopes, is eroding at a rate that is higher than would be regarded as economically viable. Pressures on land indicate an urgency to increase sustainable production per unit area.

There is inadequate understanding throughout the agricultural sector about a much closer relationship between land use, crop type and land capability. While over 60% of our total land area is suited to some form of agricultural activity, only about 29% are appropriate for arable farming. Agricultural practices such as intensive sloping land cultivation of sugar-cane, ginger and dalo; intensive flat land cultivation; commercial livestock farming

without good pasture management; reclamation of large freshwater swamps for rice; and the reclamation of large mangrove islands for agriculture are not sustainable.

Over the years, these practices have dramatically increased erosion resulting in the thinning of top-soils and the progressive siltation of rivers, deterioration of drainage on river flats and the frequent inundation of coastal areas. The inundation of coastal areas ultimately results in damage to infrastructure costing millions of dollars in rehabilitation, loss of life and the continuous expensive operations of dredging. In addition, it has had detrimental impacts on the water quality.

Forest

The inventory of Fiji's forestry resource was completed in 1995 and results indicated that forests cover represented 47.5% (Table 5) of total land area. The rate of conversion of natural forests into plantations needs to be contained, especially with the high value mahogany plantations maturing. Although exotic plantations (pine and hardwood) do not account for a large proportion of the total forest cover, any major increase must be balanced against a possible loss of biodiversity and the increased risk of loss from a new pest or disease. These plantations have had on balance, very positive environmental impacts.

They are however resulting in the conversion of richly diverse forests into exotic monocultures with insufficient attention paid to the role of natural forest cover in the protection of watersheds, streams, and soil resources. The rate of deforestation is modest and appears to be occurring at a rate of 0.5– 0.8 percent per year and is continuing a more controlled regime following the introduction of the National Code of Logging Practice (NCOLP). Some of the threats to forest resources includes the growing incidences of wild fires which destroys natural wild life habitats, the ease with which protection forests can be logged through the loophole of agricultural development, the disregarding of stream flow, soil erosion and ecological considerations when logging, and the inattention given in some logging operations to legally established reserve areas.

Marine and Water resources

The marine resource sector boasts a diverse range of resources which range from fin-fish products such as yellow fin, big -eye, albacore and skipjack tuna species to prawn, seaweed, giant clam and tilapia farming which are cultured at a semi-commercial and subsistence level. There is also an extensive system of mangrove and coral reefs and an important crustacean, shell, and beach-de-mer resource. The existence of stocks of tuna in Fiji waters has been well known for many years.

A 1994 South Pacific Applied Geoscience Commission (SOPAC) report on the assessment of Fiji's tuna resources confirmed the abundant tuna resource in Fiji waters almost all year round. However, it indicated that the Fiji waters comprise only a small part of the distribution of these migratory species and although, the catch in Fiji waters is increasing, it is representative of only a small fraction (about 1%) of the total catch of tuna in the Western Pacific, which is now around 1.3 million tonnes per year.

The consequences of land degradation and inappropriate land use practices have the potential to negatively impact the tourism industry, considered the most promising industry for the country. Sectors of the industry already express concern about dirty rivers, frequency of flooding, water rationing and poor quality water, unsightly landscapes, pollution and visible waste. Environmentalists point to the vulnerability of the coral reefs to excessive sediment brought into the lagoons by flooded rivers from eroding watersheds.

The environmental impacts of uncontrolled urbanization combined with land degradation are seriously impacting on the quality of living and the sustainable income generating capacity of Fiji's natural resources. The release of industrial pollutants and inadequate waste management practices has posed challenges to natural resource management. Fiji has a number of principal resource management, conservation and biodiversity protection legislation pieces that adequately address natural resource management. One of the principal aims is the equitable sharing of benefits from resources.

3 EC ACTIVITIES IN ENVIRONMENTAL MAINSTREAMING

ENVIRONMENT PROGRAMME : CONSTRUCTION OF NABORO LANDFILL

Expected completion date : 31 December 2005 Amount : € 4.4 million

Implementing and sponsoring agency : Ministry of Environment

The objective of this programme is to upgrade the urban environment of the Greater Suva area . The area concerned by the programme includes the municipalities of Suva, Nausori and Lami , housing a quarter of Fiji's population. Urban solid and liquid waste disposal will be improved through the sealing and rehabilitation of existing dumps at Lami, Nausori and Navua and, in particular, through the construction of a new fully engineered landfill with its associated infrastructure at Naboro.

ENVIRONMENT PROGRAMME: CONSTRUCTION OF KINOYA OUTFALL

Expected completion date : 31 December 2005 Amount € 4.1 million

Implementing and sponsoring agency : Ministry of Environment

The objective of this programme is to upgrade the urban environment of the Greater Suva area. The area concerned by the programme includes the municipalities of Suva, Nausori and Lami , housing a quarter of Fiji's population. Urban solid and liquid waste disposal will be improved through the sealing and rehabilitation of existing dumps at Lami, Nausori and Navua and, in particular, the installation of a new sea outfall at the Kinoya Sewage treatment Plan.

ANNEX 4 (DRAFT) MIGRATION PROFILE COUNTRY FIJI

Box 1 : Immigrants

Total number of residents	830 000
Of which :	
Own nationals	95 %
Immigrants	5 %
Status immigrants	
Refuges	0 %
Labour migrants /permanent	3 %
Labour migrants/seasonal	2 %
p.m. internally displaced persons	
Immigration trend	
Number of arriving immigrants in 90/95:	2500
Number of arriving immigrants in 95/2000:	2500
Education: Skilled labour	90 %
Main countries of origin	Pacific Island Countries, Australia, New Zealand, Europe
Rate of return	NA %
Finance	
Amount of outgoing migrant remittances:	NA \$ million
Remittances as % of GDP:	NA %

Box 2: Emigrants

Total number of emigrants	about 150 000
Status emigrants	
Refugees	% no
Labour migrants /permanent	% 85 %
Labour migrants/seasonal	% 15 %
Legal situation emigrants	
Documented	% 100 %
Undocumented	% n.a.
Trend	
Number of leaving migrants in 90/2000	100 000 est.
Number of leaving migrants from 2000 :	about 3500 – 4500 / year
Education: Skilled labour	% 80 – 90 %
Main countries of destination	Australia 34 % ; USA 24 % ; Canada 22 % ; New Zealand 16 % ; elsewhere 4 %
Rate of return	% 5-10% %
Finance	
Amount of incoming migrant remittances	\$ 140 million (2003)
Remittances as % of GDP:	8 %

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